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Commodity Boom Sparks Revival in Atlantic Canada's Mining Industry

The mining industry in Atlantic Canada is experiencing a revival after several years of stagnant output and declining employment. Strong demand and high commodity prices have led companies to redevelop mothballed projects such as the Caribou and Scotia mines in New Brunswick and Nova Scotia, respectively, expand existing operations such as the potash mine in New Brunswick, and proceed with the development of newly found resources such as the Voisey's Bay and Duck Pond mines in Newfoundland and Labrador.

As a result, the value of metallic minerals produced in the Atlantic region has almost quadrupled since 2003 to reach $4.6 billion in 2006. Output has grown faster than nationally with Atlantic Canada's share of the value of Canada's metallic mining output rising from 13% in 2003 to almost 22% last year. Employment in the high-wage mining industry has also turned around. The number of mining workers in the Atlantic provinces fell from about 12,000 in the mid-1980s to less than 6,500 in 2003 but has since increased to about 7,600 in 2006. Regional ports are benefiting from increased activity – the potash terminal represents about 50% of the revenue for the Port of Saint John. Meanwhile provincial governments are benefiting from revenue windfalls: Income from mining taxes and royalties in Newfoundland and Labrador is projected to be $270 million in 2007/08, up from $53 million last year. In New Brunswick, the metallic minerals tax is expected to generate $70 million in revenue this fiscal year, compared with $4 million annually over the past two decades.

The rebound in mining in the Atlantic provinces is largely due to a tremendous global bull market for most mineral ores. Iron ore prices have almost tripled since 2003 while zinc, copper and nickel prices are four to five times higher. Rapid demand growth from developing countries such as China has driven up prices. China's share of global copper and iron ore consumption has risen from 5% two decades ago to over one-third today. Uranium prices have increased tenfold since 2003 reflecting renewed global interest in nuclear power. Even with the appreciation of the Canadian dollar, mineral prices have increased substantially in Canadian dollar terms.

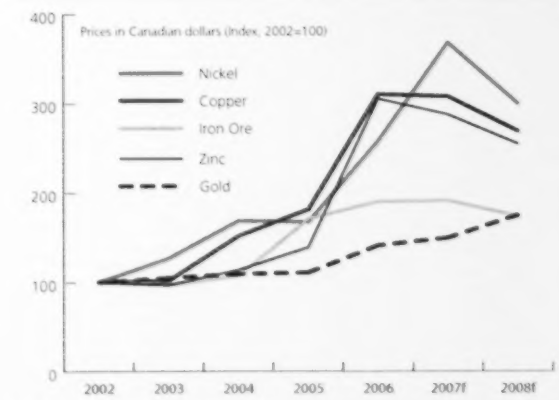
Mining in Atlantic Canada

A majority of the value of the existing mineral production in Atlantic Canada comes from three mines in Labrador, which employ about 2,800 people. Iron ore from the Iron Ore Company of Canada mine and the Wabush mine was worth $1.5 billion in 2006. Nickel from the Voisey's Bay mine, which began production in 2005, was worth $1.3 billion last year. Zinc is the third most valuable mineral in the region, with output from New Brunswick worth $902 million in 2006. Output of copper, lead and silver from the region's mines was worth a combined $500 million last year.

Additional Atlantic production has come on stream in 2007 from the Duck Pond copper/zinc mine in central Newfoundland, the Caribou lead/zinc mine near Bathurst, New Brunswick and the Scotia zinc/lead mine in Gays River, Nova Scotia. These additions and further increases in prices will push Atlantic metallic production values to over $6 billion in 2007.

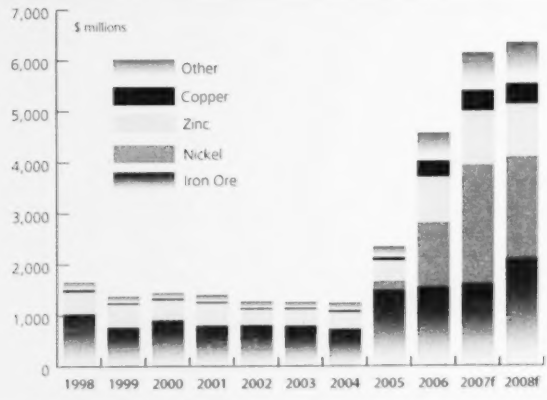
The Atlantic provinces also produce a significant amount of non-metallic minerals, worth at least $600 million in 2006. Potash from the PotashCorp operation in Sussex, New Brunswick is the

Selected Mineral Prices

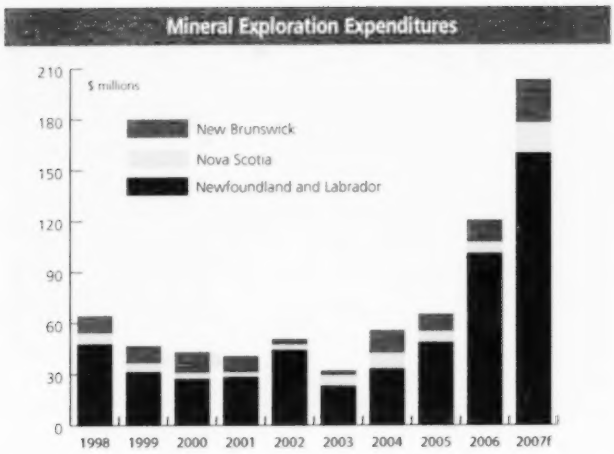


Source: BMO Capital Markets, IMF, APEC.

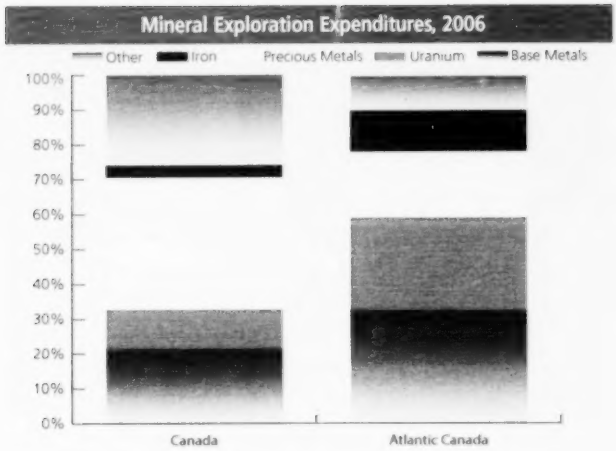
Value of Mineral Production, Atlantic Canada



Source: Natural Resources Canada, APEC.



Source: Natural Resources Canada, NL Department of Natural Resources, APEC.



Source: Natural Resources Canada.

largest contributor by value. Other minerals include gypsum mainly in Nova Scotia, peat mainly in New Brunswick and stone, sand and gravel throughout the region. In Prince Edward Island, sand, gravel and peat are produced, worth about $4 million in 2006.

Looking Ahead

Two large-scale projects will have a significant impact on the region's mining sector over the next decade. PotashCorp recently announced plans to spend $1.7 billion on a new potash mine and expanded milling operations in New Brunswick. The four-year project will supply long-term demand growth in key markets such as Brazil. There is also a further $1.6 billion to be spent on the Voisey's Bay project at the processing plant and underground mine. An announcement on the type of processing facility in Long Harbour is expected in 2008.

More than a dozen other mining projects are in various stages of development throughout the region. In Nova Scotia this includes the Caribou gold mine in Upper Musquodoboit and the Donkin coal mine in Cape Breton. A decision is expected to be made on the Donkin project in 2008 with production starting in 2009 or 2010. In Newfoundland the Pine Cove gold mine near Baie Verte should be producing in early 2008, the Beaver Brook antimony mine is nearing development, and the Ming copper mine near Baie Verte is being evaluated. In New Brunswick the Mount Pleasant tin/indium mine is currently under development.

High mineral prices have also stimulated an increase in exploration activity. Spending on exploration in Atlantic Canada jumped from $32 million in 2003 to $117 million in 2006. This year is expected to be a record year with anticipated expenditures of $203 million including $160 million in Newfoundland and Labrador. In Labrador most of the focus is on uranium, nickel and iron ore. On the island of Newfoundland and in Nova Scotia and New Brunswick the search is more directed towards base metals and gold.

Not everything is rosy, however. Zinc production is set to drop off in 2010 with the planned closure of Xstrata's Brunswick mine near Bathurst. Exploration is currently underway to find new mineral deposits nearby to extend the life of the mine. The potential employment impact will be significant in a region already struggling with a declining forest industry; there are 850 people employed at the mine and another 450 at the smelter in Belledune.

Conclusion

The high prices that are supporting increased exploration and production of Atlantic Canada's mineral resources are expected to be maintained for at least the next few years as global demand, led by developing countries, continues growing at a robust pace. There will be some modest easing in prices in 2008 and 2009 as new mines add to global supplies. The Atlantic region must therefore ensure that it maintains a competitive business and regulatory climate to attract further investment in its mining sector. Aside from being able to withstand fluctuations in commodity prices, new mines will also have to address the likelihood of greater environmental scrutiny and ensure they have a robust strategy to secure the skilled workers they need.

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